

Unlocking our Petroleum Wealth Potential: A Game Plan for Meeting Alaska's Fiscal Challenge

State of Alaska
House Special Committee on Economic Development,
Tourism, and Arctic Policy
Anchorage, Alaska
December 9, 2015

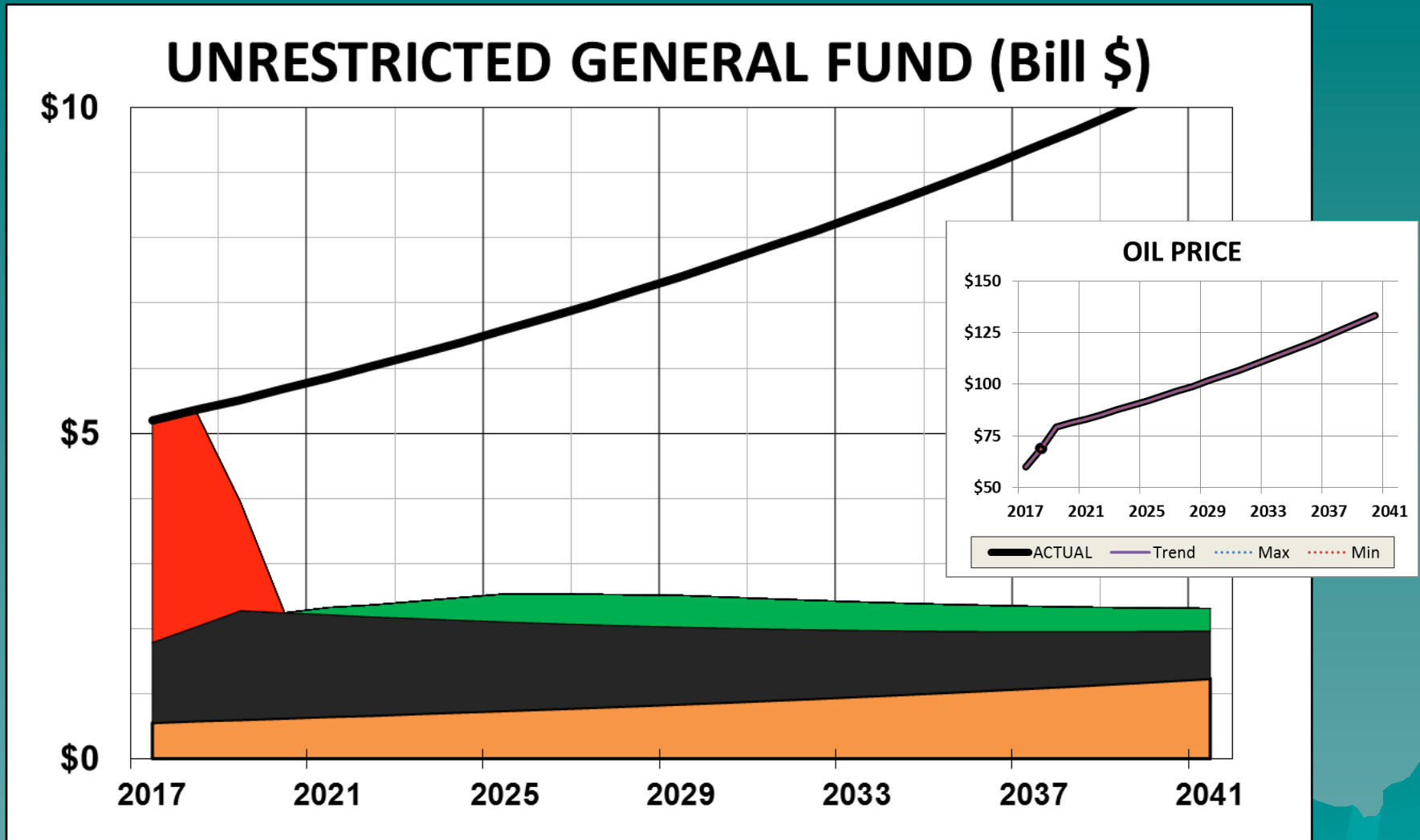
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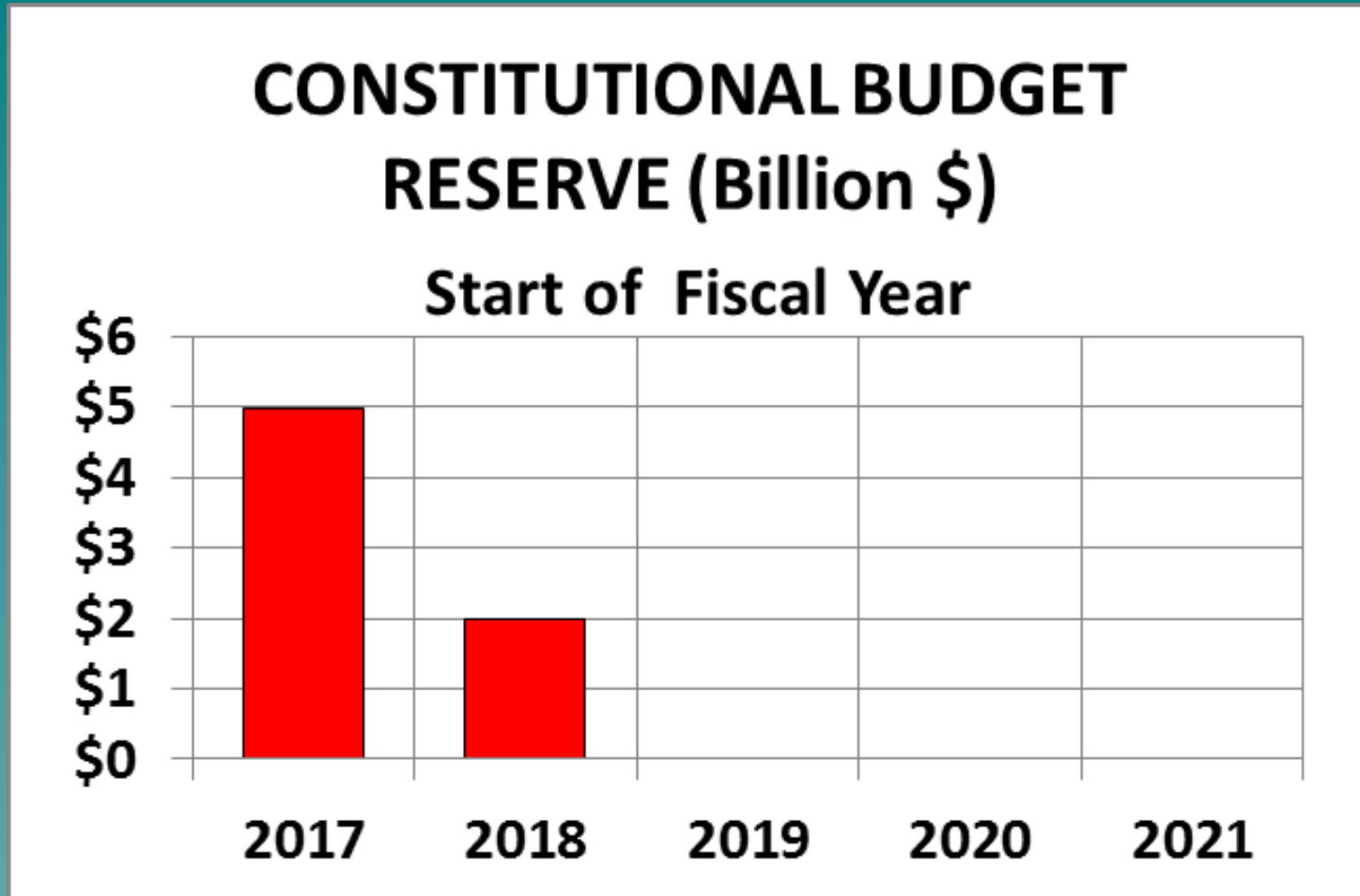
Take Away

- There is no solution to our Fiscal Challenge without use of the earnings of the Permanent Fund
- We can use the earnings without compromising either the Permanent Fund or the Permanent Fund dividend
- Use of the earnings is challenging since no other state, and probably no other nation, has had a fiscal structure relying primarily on the earnings of its accumulated wealth
- We have several proposals for implementing the use of earnings to help us start thinking about the best solution
- Crafting a successful solution (game plan) will require everyone working together


Fiscal Challenge: Cautious View




Time is Running Out



Fiscal Gap : Zombie Solutions

- Natural Resource Development
 - Value Added Processing
 - Economic Diversification
 - Infrastructure Investments in
Power and Transportation
 - Footloose Industry
 - Renewable Energy
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Fiscal Gap : Nickel and Dime Solutions

- ✓ Lottery
 - ✓ Marijuana Tax
 - ✓ Increase the....
 - ✓ Gas Tax
 - ✓ Fish Tax
 - ✓ Mining Tax
 - ✓ Tourism Tax
 - ✓ Alcohol Tax
 - ✓ Tobacco Tax
 - ✓ School Tax
 - ✓ Health Care Provider Tax
- 
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Fiscal Gap : ~~Silver Bullet~~ Blank Solutions

- ◆ Squeeze Petroleum
 - Increase Production Tax Minimum
 - Eliminate GVR (lower tax rate on new oil)
 - Increase Production Tax Rate / Progressivity
 - Gas Reserves Tax
- ◆ Optimize Financial Asset Portfolio
 - Pension Obligation Bonds
 - Adjust Debt to Equity Ratio
 - Leverage Assets

Fiscal Gap : 3 REAL Tools

- ☐ MORE BUDGET CUTS
- ☐ INCOME TAX/SALES TAX/PFD REDUCTION
- ☐ EARNINGS FROM STATE ASSETS

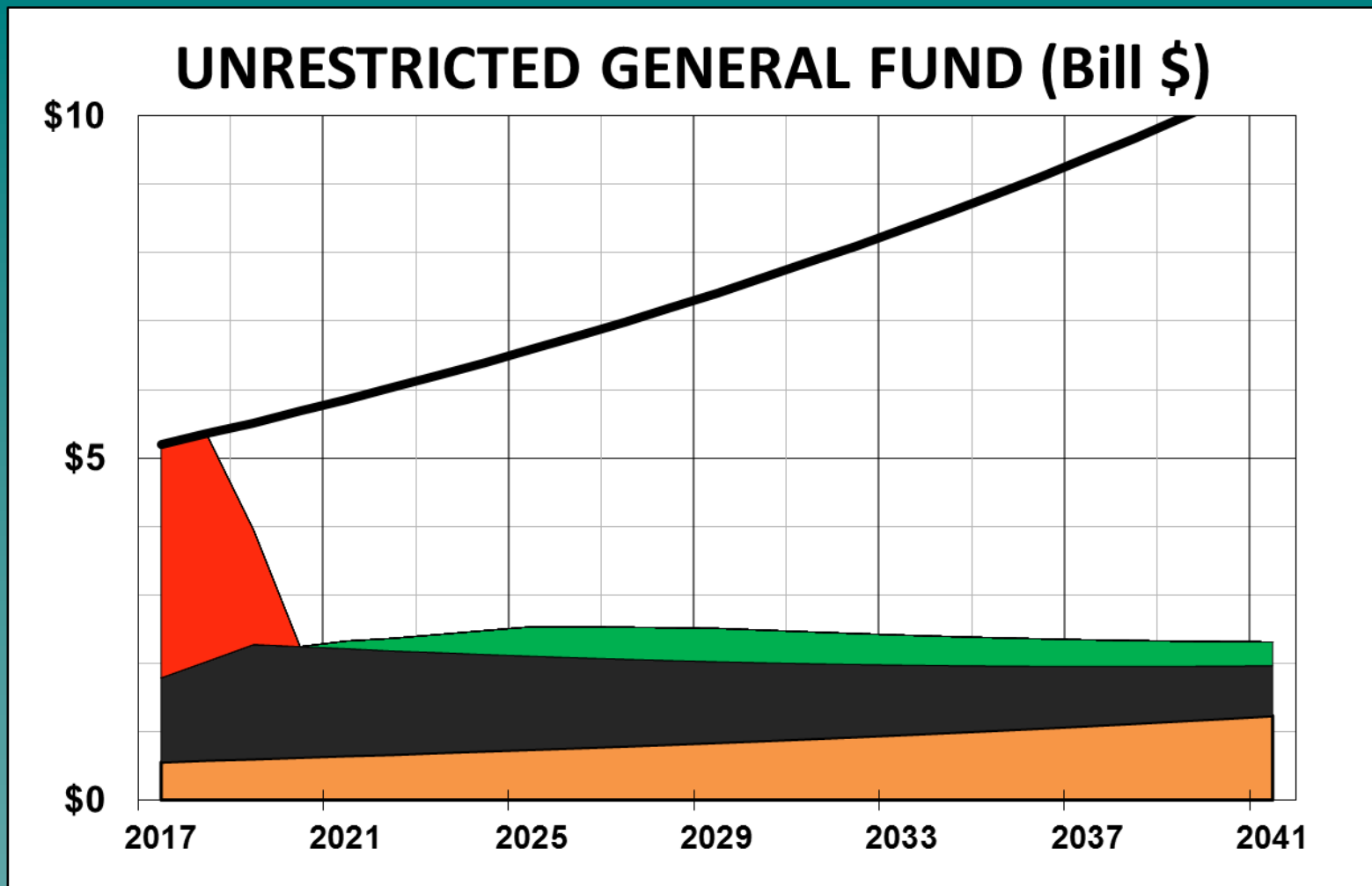
**PICK ANY 3 FROM THE
LIST ABOVE!**

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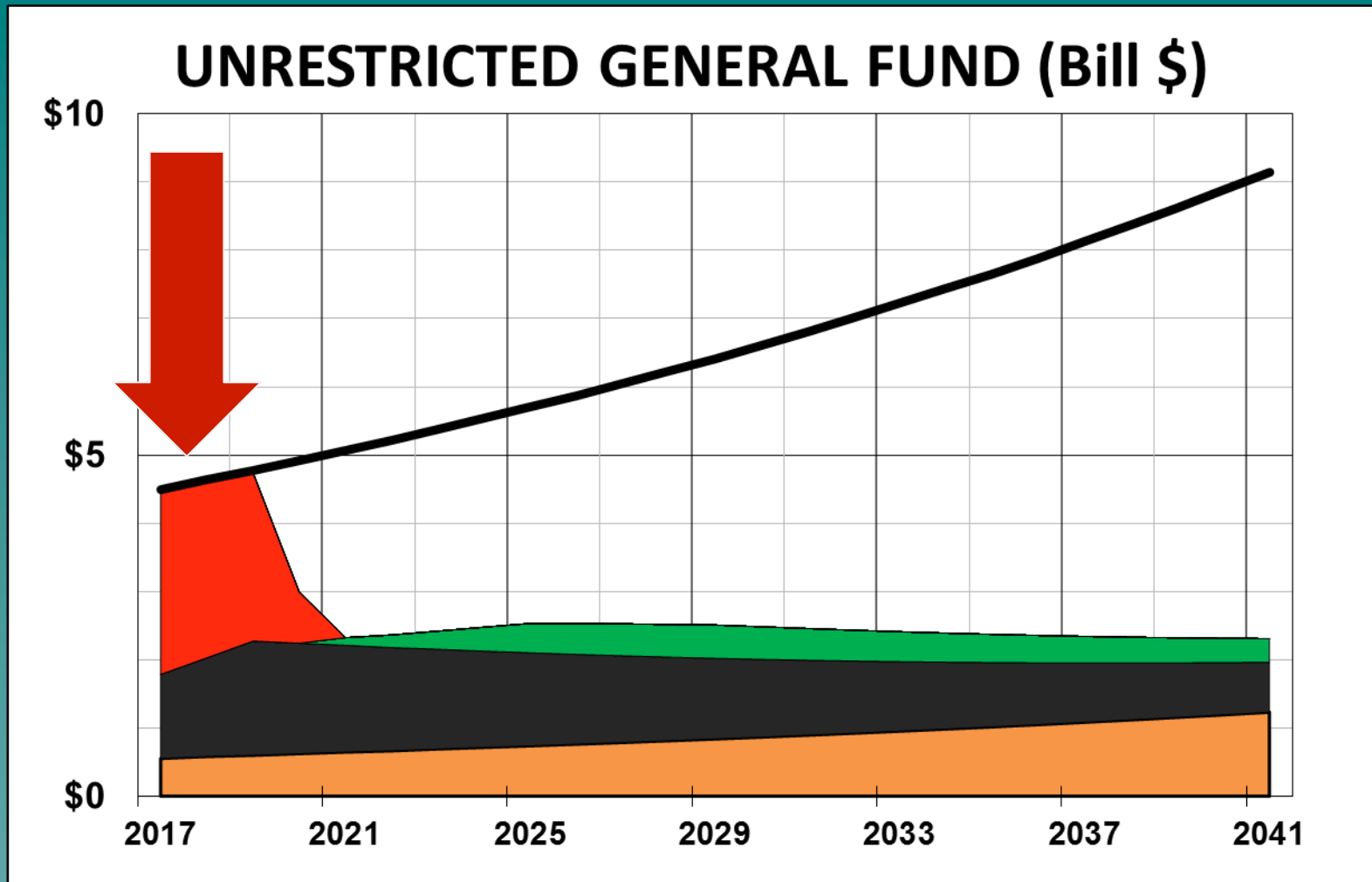
Why Not Do Nothing?



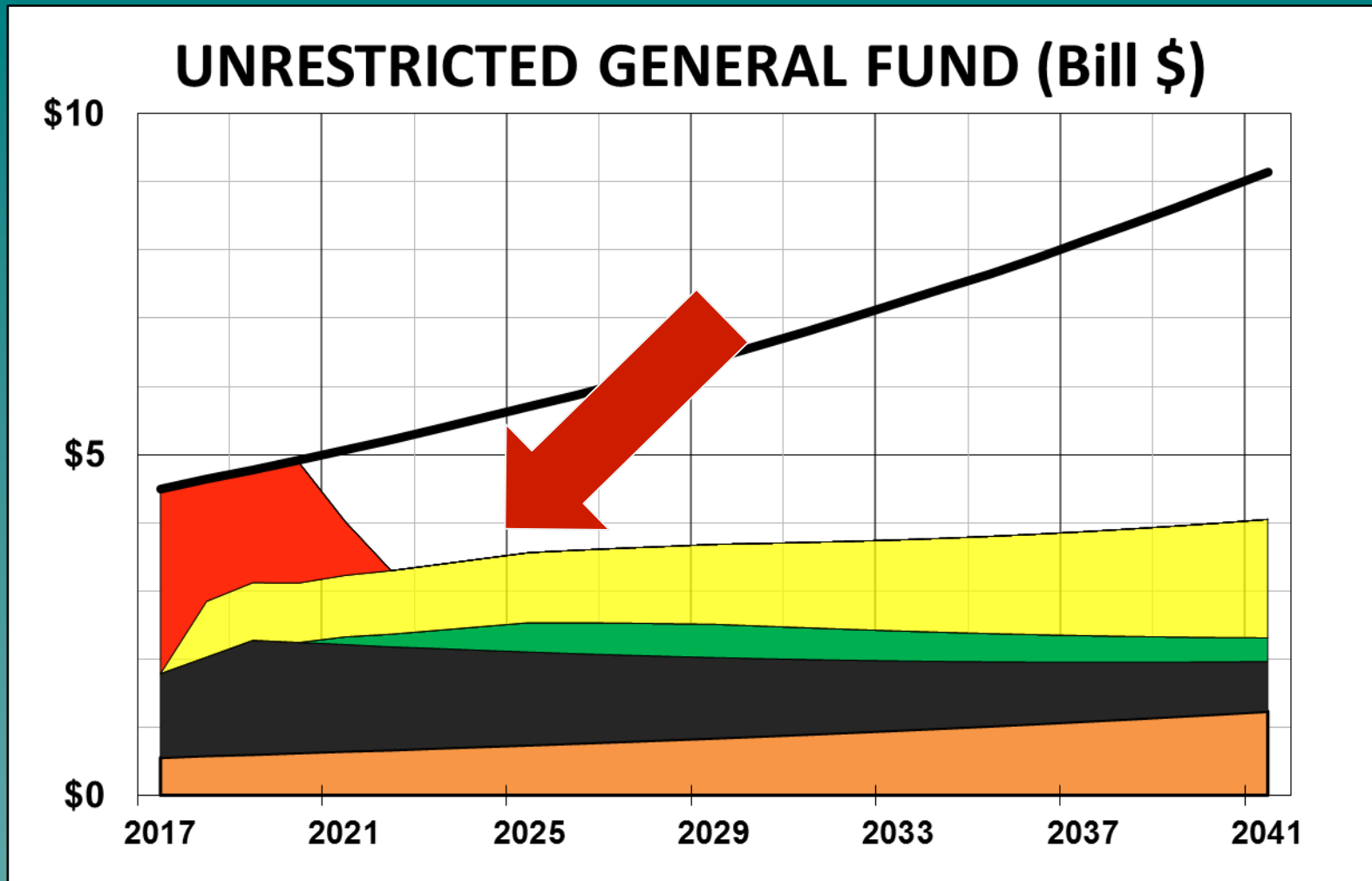
Fiscal Challenge: Fill the Gap



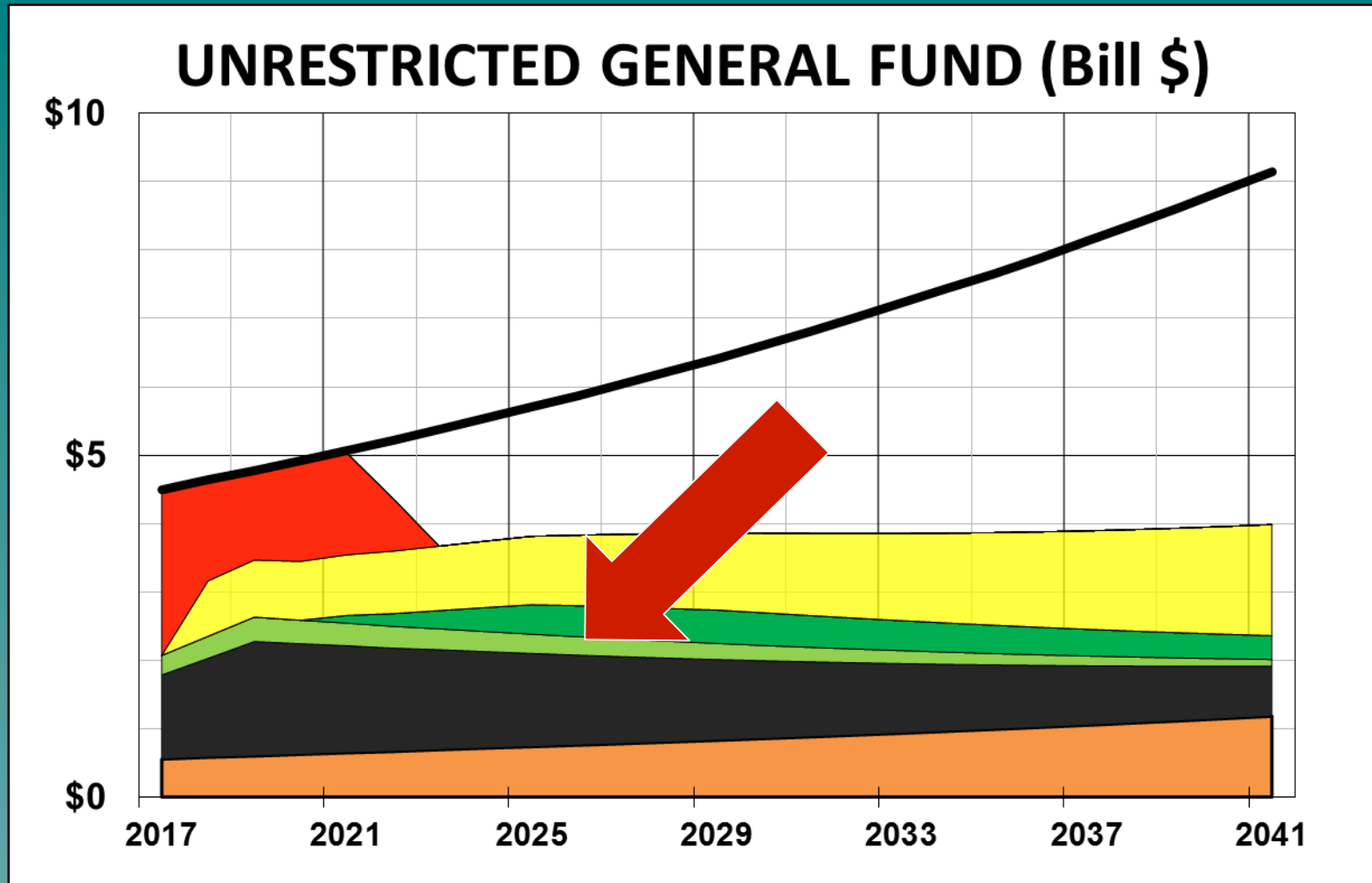
Cut the Budget



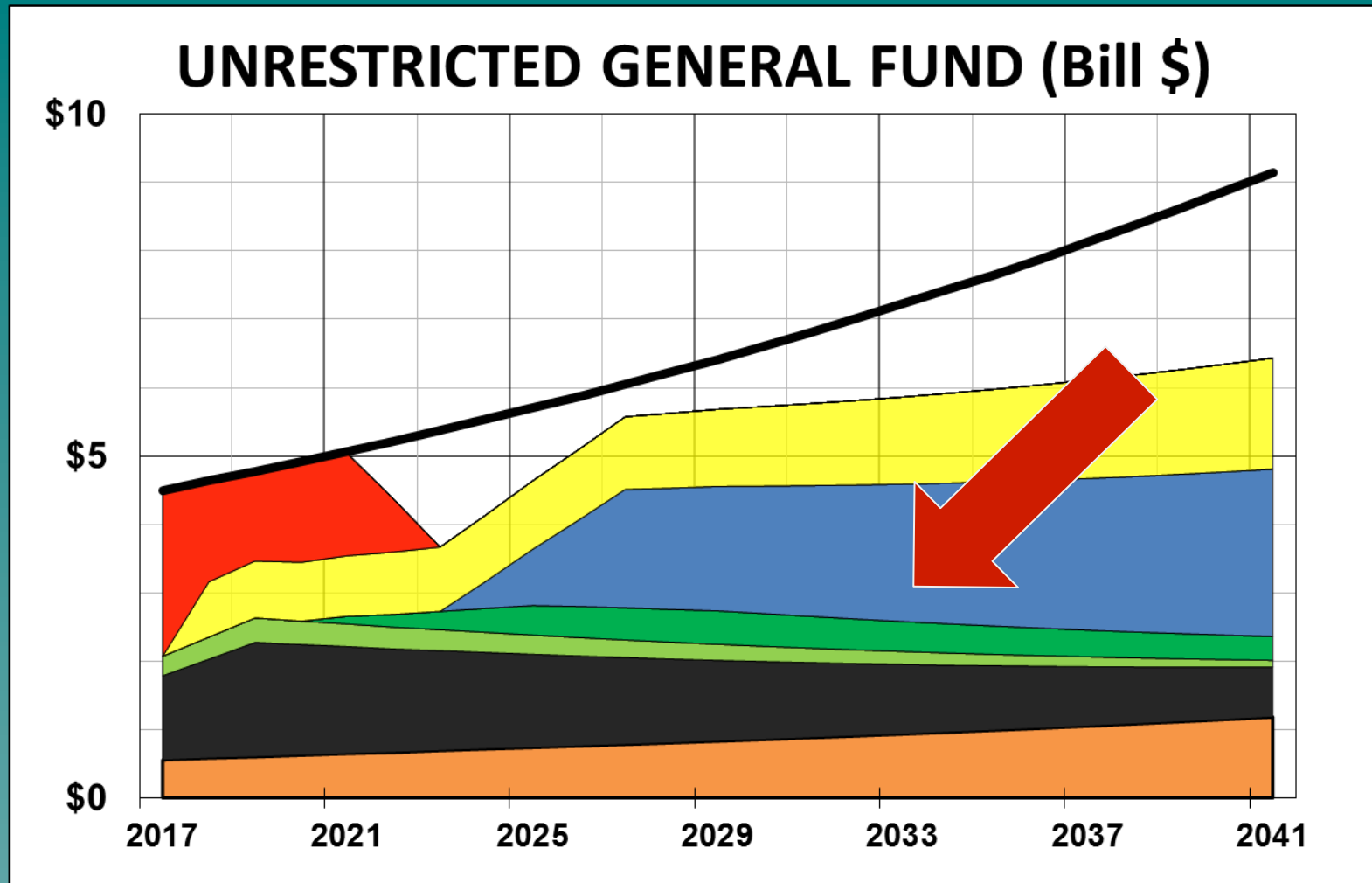
Add Income or Sales Tax



Double the Oil Production Tax



Add Gas Line Revenues

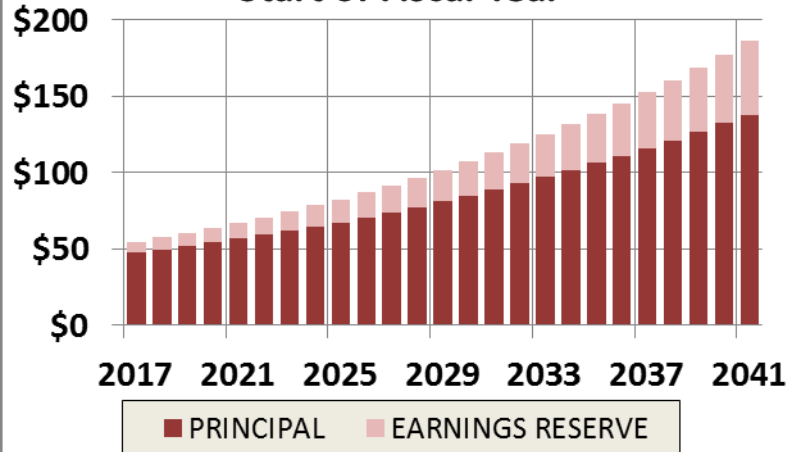


Don't Use PF Earnings: Negative Economic Effects

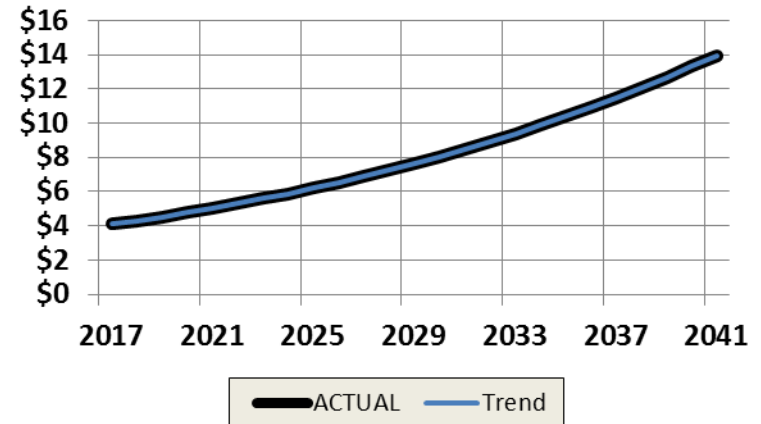
- Budget cuts
- Taxes on households
- Petroleum investment
- Business community confidence

Meanwhile: Permanent Fund

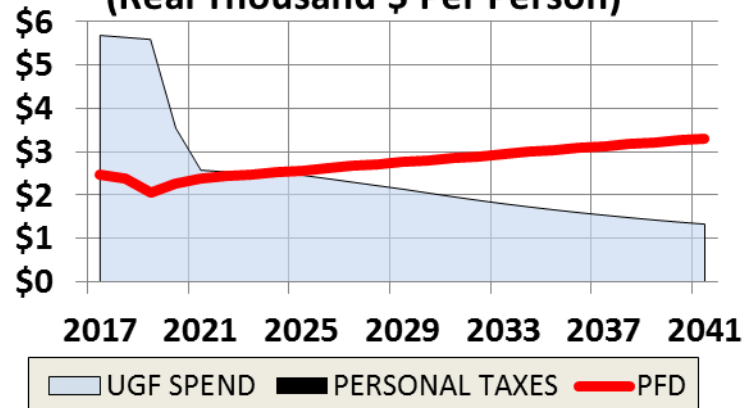
PERMANENT FUND (Billion \$)
Start of Fiscal Year



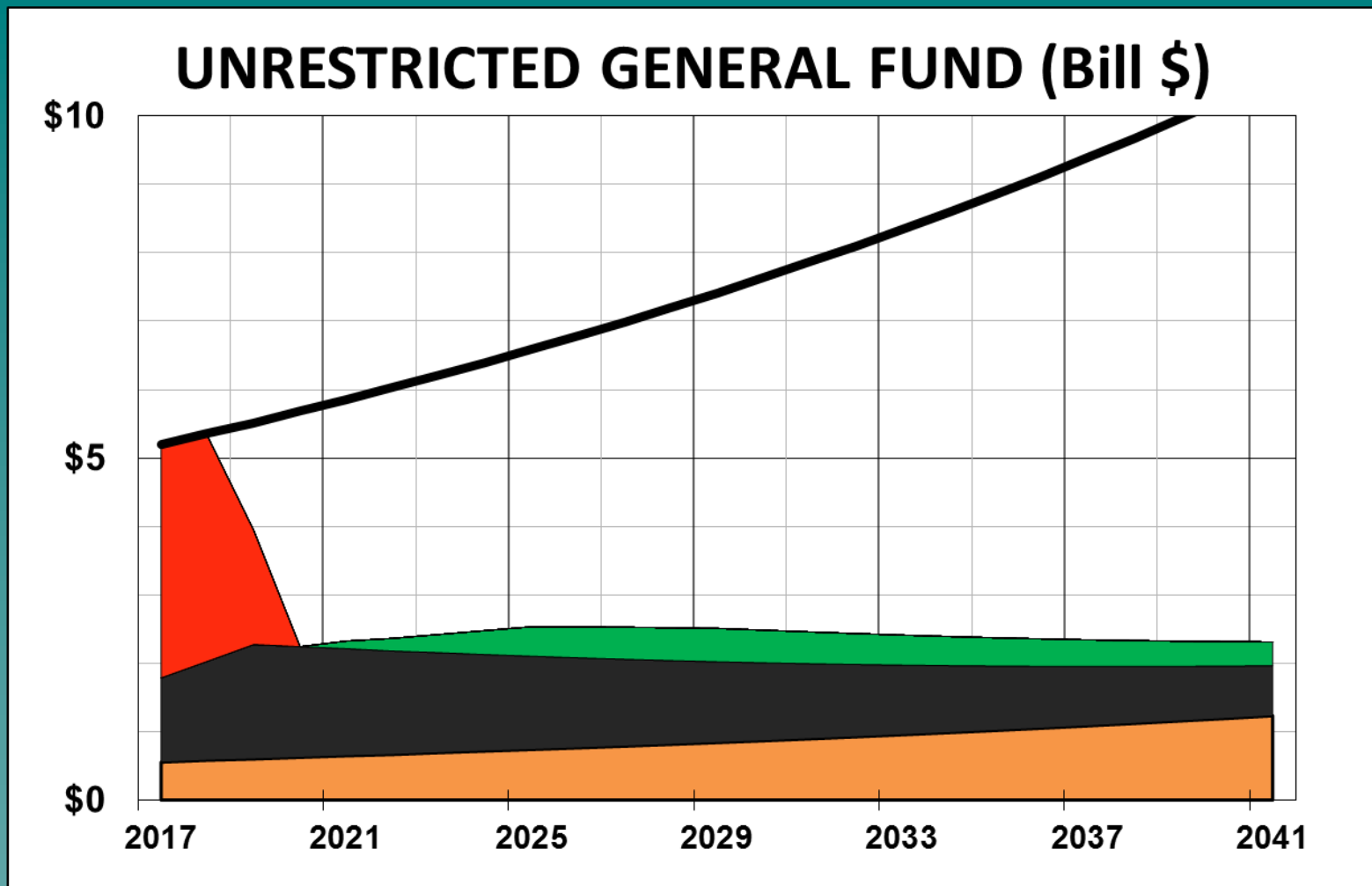
**PERMANENT FUND:
TOTAL EARNINGS (Billion \$)**



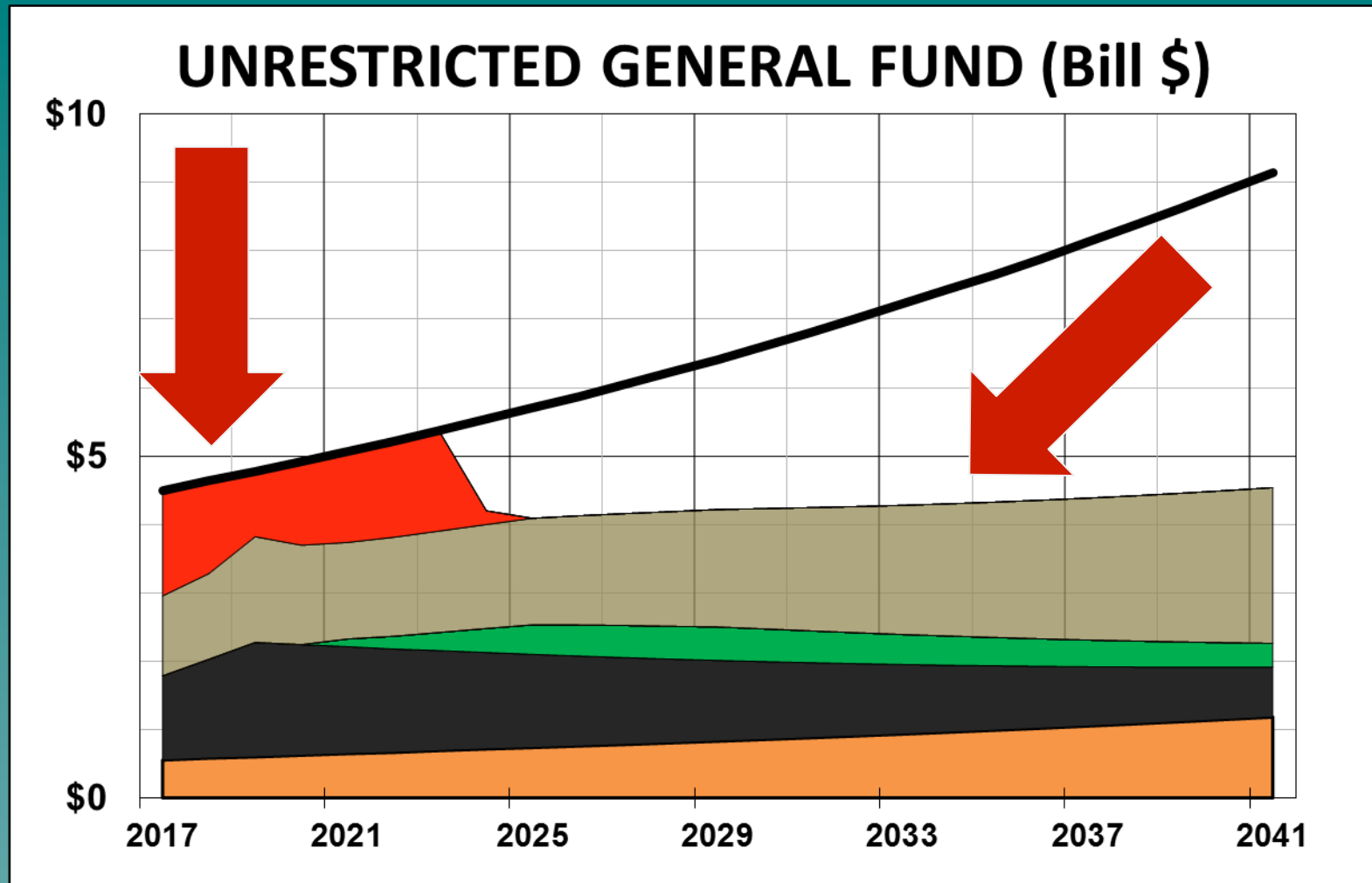
**PERSONAL INDICATORS
(Real Thousand \$ Per Person)**



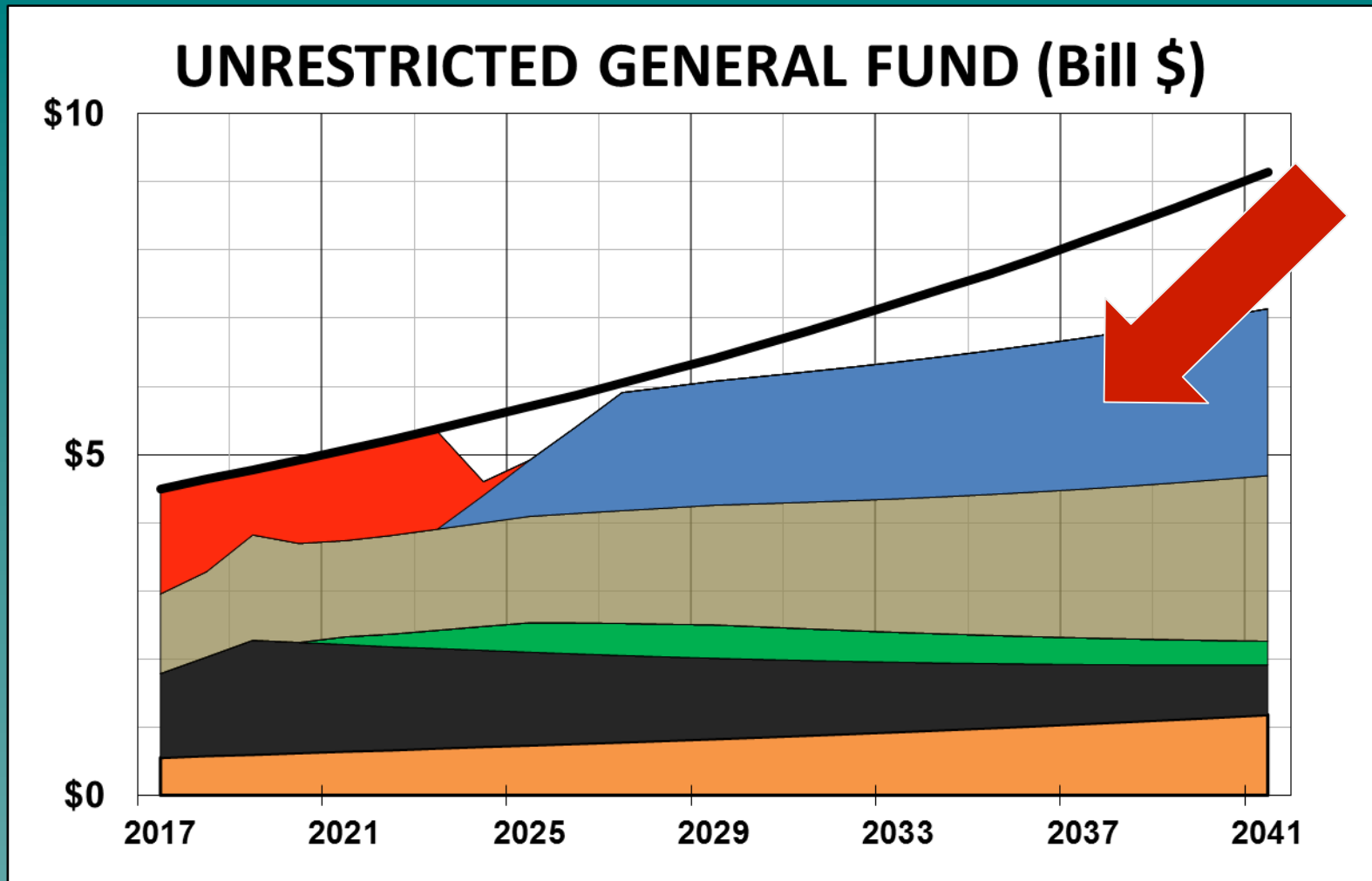
Fiscal Challenge: Fill the Gap



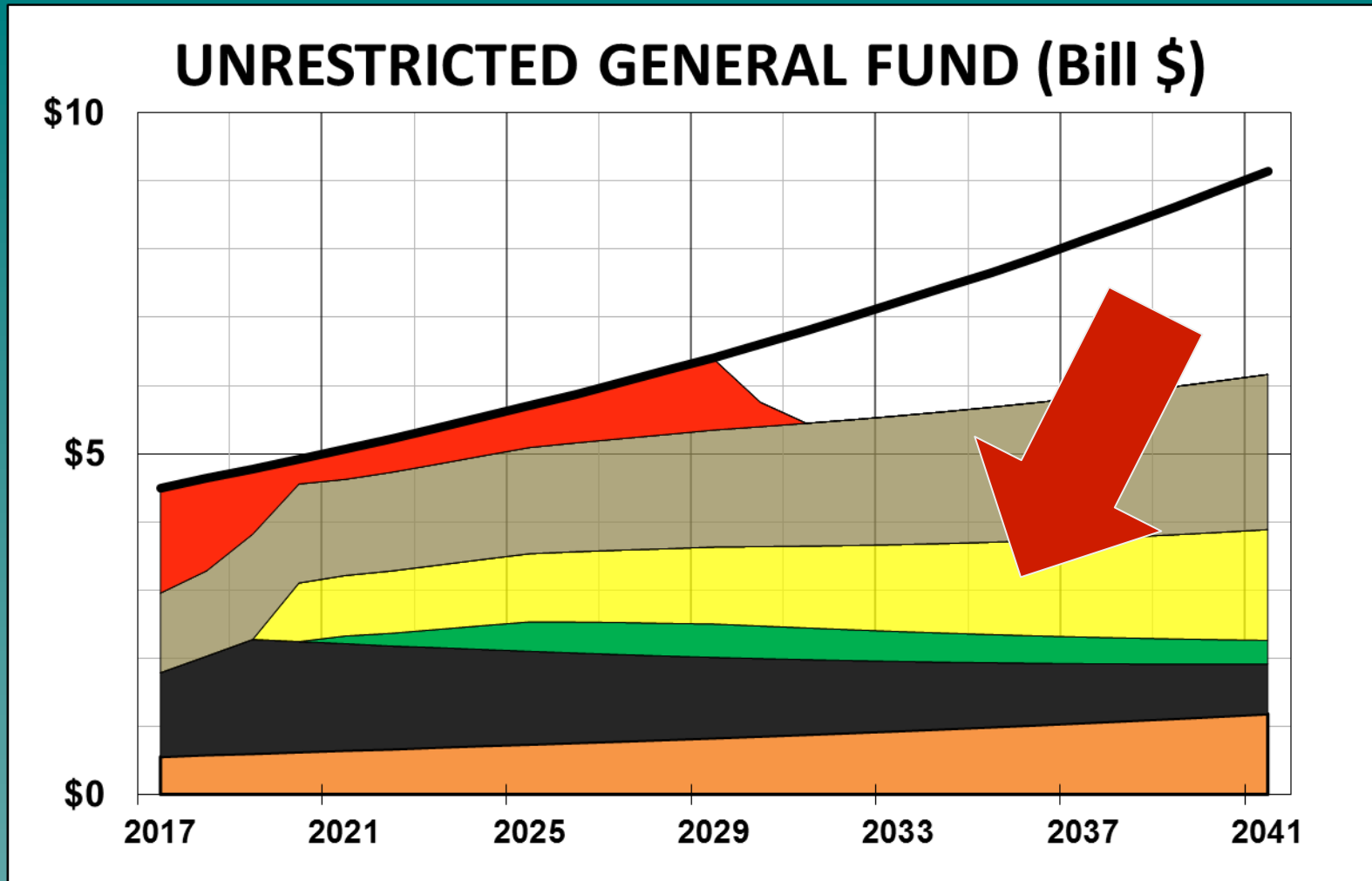
Cuts + PF Earnings Draw



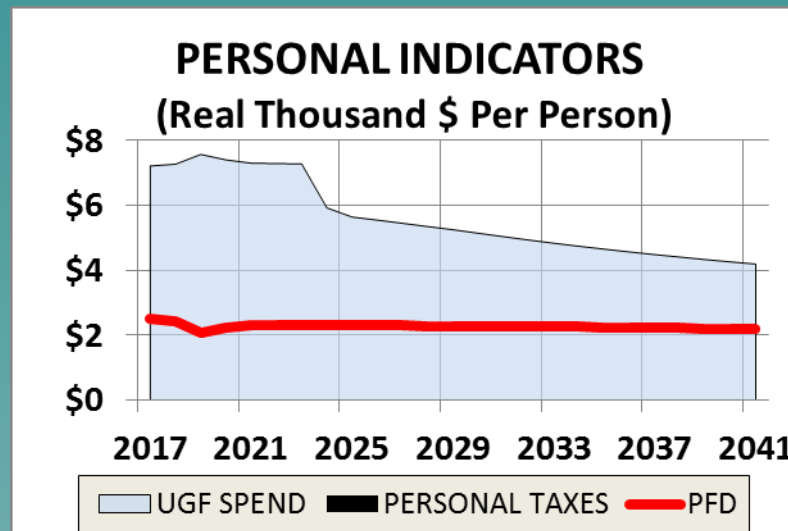
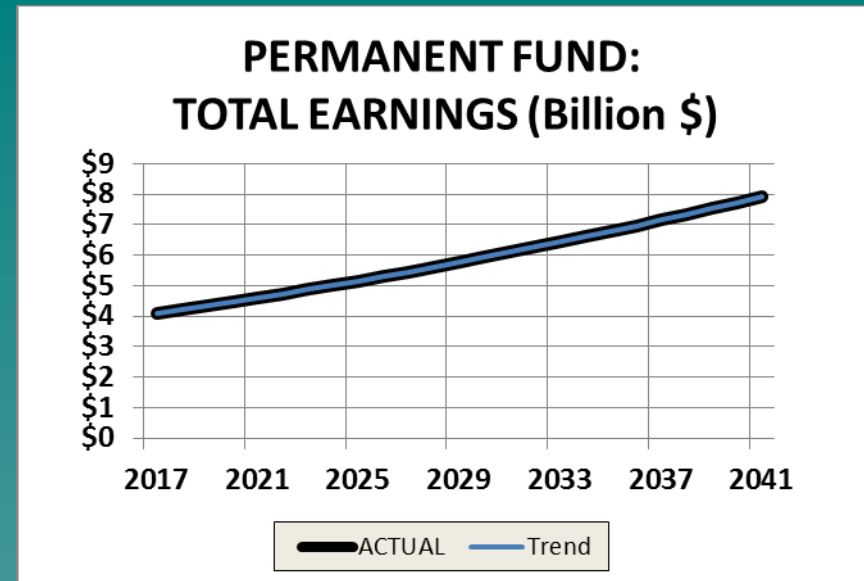
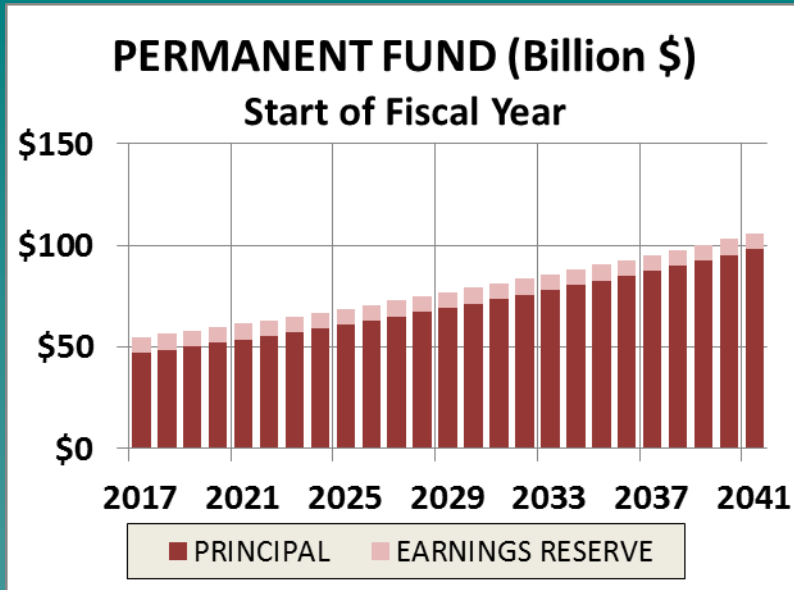
Add a Gas Line?



Or a Tax?

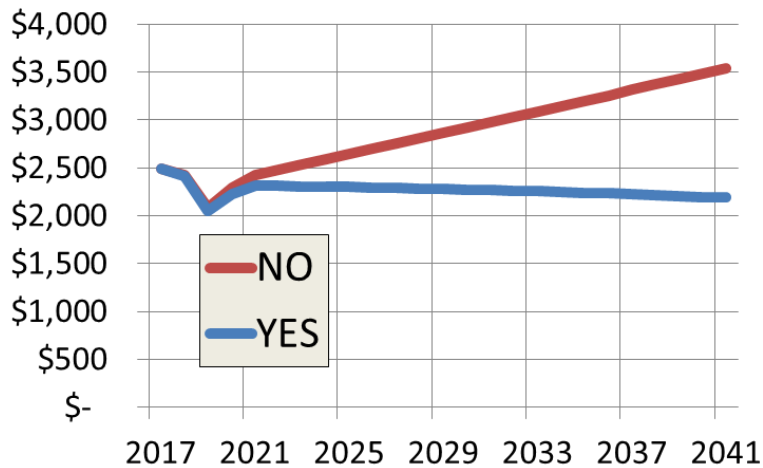


The Permanent Fund

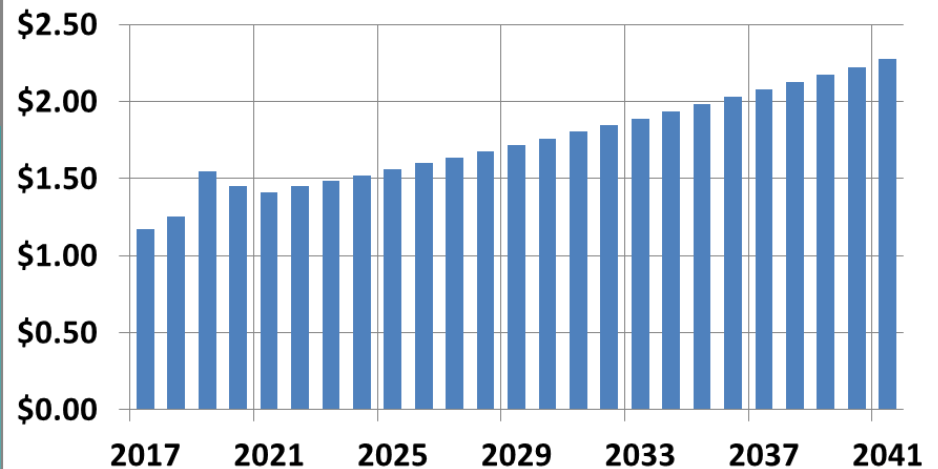


Tradeoff

PF DIVIDEND (2015\$)

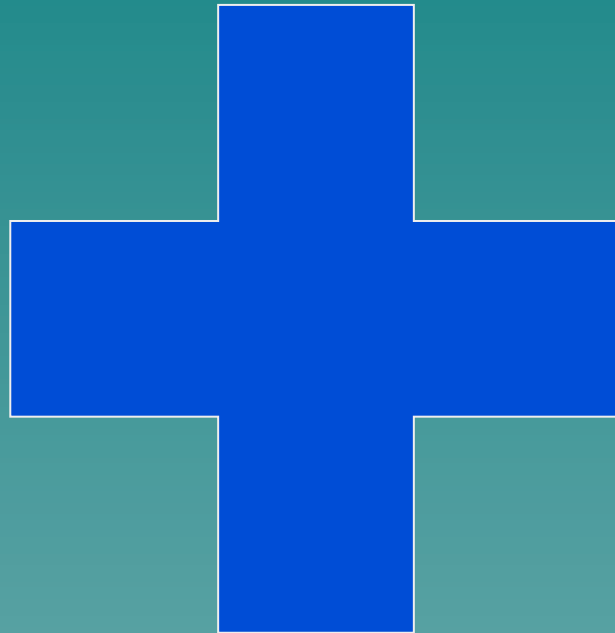


PERMANENT FUND EARNINGS (Billion \$)



Use Permanent Fund Earnings-- Economic Impact

NO DRAW
FROM
POCKETS
OF
ALASKANS
TODAY



SIGNAL OF
CONFIDENCE
FOR
INVESTORS

Postpone Inevitable Tug of War

No
Income
Tax!

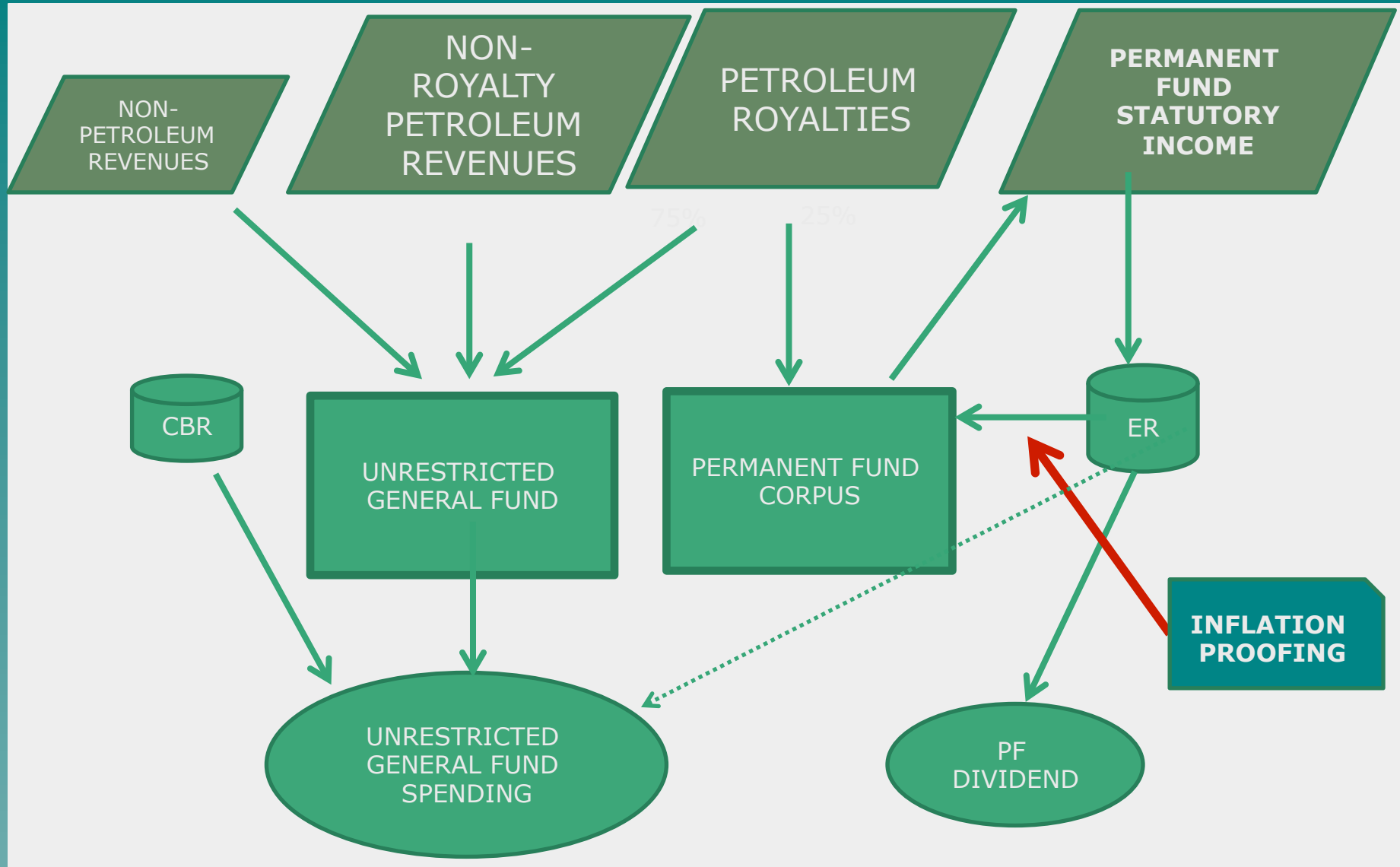
No
Sales
Tax!



No
Dividend
Cuts!

No
Budget
Cuts!

Implementation: Alaska Fiscal Structure



Proposals for Use of Earnings

- ◆ ACCESS TOTAL EARNINGS OF PF--POMV (Constitutional Endowment)
 - Fold Earnings Reserve into PF Corpus
 - Draw 4.5% - 5% of PF value from PF Corpus
 - Divide draw between UGF and PF Dividend
- ◆ IMMEDIATE PLUG--SB114 (Statutory POMV)
 - Draw 5% of PF value from PF Earnings Reserve for UGF
 - Pay PF Dividend from 75% of Royalties (with a floor)
- ◆ STABILIZE REVENUE STREAM—GOVERNOR WALKER PROPOSAL (Statutory Sovereign Wealth Fund)
 - Dump SB21 revenues and additional 25% of Royalties into PF Corpus
 - Transfer \$3 Billion from CBR to ER
 - Draw % of PF value or \$3.1 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
 - Pay PF Dividend from 50% of Royalties
- ◆ SUSTAINABILITY--SUSTAINABLE SPENDING (Statutory)
 - Draw amount from PF Earnings and Earnings Reserve) that, together with current Petroleum Revenues, equals the Sustainable level
 - Divide draw between UGF and PF Dividend

Sustainability

A spending level based on current and projected future revenue streams which, if adopted now, could be maintained consistently long into the future--adjusted for inflation and population growth.

Some Criteria for Choice

- STABILITY OF REVENUES
- DISCIPLINE SPENDING
- SUSTAINABLE
- FAIR TO ALL ALASKANS
- UNDERSTANDABLE
- IMPLEMENTABLE
- FLEXIBLE
- PROTECT ASSETS
- MINIMIZES UNINTENDED CONSEQUENCES

Strategy Moving Forward

- ◆ THIS YEAR

- Budget Cuts
- Structured Use of PF Earnings

- ◆ NEXT YEAR

- Budget Cuts continued
- Tug of War
 - ◆ Income Tax
 - ◆ Sales Tax
 - ◆ Dividend Reduction

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